

Frankfort - Elberta Area Schools

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2008

CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	4
STATEMENT OF ACTIVITIES.....	5
BALANCE SHEET - GOVERNMENTAL FUNDS	6
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	7
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT- WIDE STATEMENT OF ACTIVITIES	8
STATEMENT OF FIDUCIARY NET ASSETS.....	9
NOTES TO FINANCIAL STATEMENTS.....	10
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....	24
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS.....	26
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS	27
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	28

Management's Discussion and Analysis For the year ended June 30, 2008

Our discussion and analysis of Frankfort-Elberta Area Schools' (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

Description of Reporting Entity and Services Provided

Frankfort-Elberta Area Schools, located in Frankfort, Michigan in Benzie County, is nestled on the shores of Lake Michigan, 45 miles west of Traverse City. The school population for the 2007-2008 school year is approximately 545 students who are eager to learn. Sixteen percent of the students in the District are "Schools of Choice" coming from Benzie Central, Bear Lake and Onekama. Because of small class sizes, students are given more individual attention in the classroom. Educators are dedicated and caring and always look out for the student's best interest. MEAP and standardized test scores are consistently above average. The community has been extremely supportive over the years and parents are very involved in the schools in a positive way whether it is fund raising, volunteering in the classrooms, or attending the many events at the school. Frankfort-Elberta Area Schools boasts outstanding athletic, drama and music programs that allow students to learn outside of the classroom.

Overview of the Financial Statements

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

District Financial Report Organization

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements/Fund Financial Statements

Notes to Basic Financial Statements

Budgetary Information for Funds
(Required Supplemental Information)

Other Supplemental Information

District-Wide Statements

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting, which is similar to the method used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities and the difference between the two, which is net assets. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net assets* and how they have changed. Examining net assets is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

Governmental Funds:

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the general, building trades and 2002 debt service funds.

Fiduciary Funds:

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. The Student Activities Accounts are accounted for as fiduciary funds.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2008:

TABLE 1

	Governmental Activities 2006-2007	Governmental Activities 2007-2008
Assets		
Current and other assets	\$ 1,699,814	\$ 1,809,106
Capital assets	<u>9,629,665</u>	<u>9,401,263</u>
Total assets	<u>11,329,479</u>	<u>11,210,369</u>
Liabilities		
Current liabilities	1,099,001	1,154,018
Long-term liabilities	<u>6,873,272</u>	<u>6,303,550</u>
Total liabilities	<u>7,972,273</u>	<u>7,457,568</u>
Net Assets		
Invested in property and equipment - Net of related debt	2,283,141	2,567,469
Restricted	403,188	358,623
Unrestricted	<u>670,877</u>	<u>826,709</u>
Total net assets	<u>\$ 3,357,206</u>	<u>\$ 3,752,801</u>

The above analysis focuses on the net assets (see Table 1). The District's net assets were \$3,752,801 at June 30, 2008. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The District has \$358,623 restricted net assets. The remaining amount of net assets, \$826,709, was unrestricted.

The \$826,709 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities, we would have \$826,709 remaining. The operating results of the District will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008.

TABLE 2

	Governmental Activities 2006-2007	Governmental Activities 2007-2008	% Change
Revenue			
Program Revenue			
Charges for services	\$ 198,710	\$ 184,420	7.2
Operating grants and contributions	585,056	601,650	2.8
General Revenue			
Property taxes	4,539,971	4,730,265	4.2
State School Aid-unrestricted	666,768	323,216	(51.5)
Other	448,455	209,822	(53.2)
Total revenues	<u>6,438,960</u>	<u>6,049,373</u>	<u>(6.1)</u>
Functions/Program Expenses			
Instruction	3,034,128	3,103,273	2.3
Support services	1,479,711	1,470,247	(0.6)
Food services	250,148	314,653	25.8
Athletics	153,988	154,627	0.4
Community services	13,539	4,951	(63.4)
Interest Expense	309,812	293,579	(5.2)
Other transactions	114,246	57,003	(50.1)
Depreciation (unallocated)	150,625	255,445	69.6
Total expenses	<u>5,506,197</u>	<u>5,653,778</u>	<u>2.7</u>
Change in net assets	<u>\$ 932,763</u>	<u>\$ 395,595</u>	

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,653,778. Certain activities were partially funded from those who benefited from the programs, \$184,420, or by other grants and contributions of \$601,650. We paid for the remaining "public benefit" portion of our governmental activities with \$4,730,265 in taxes, \$323,216 in State Aid, and with our other revenues of \$209,822, which includes interest and general entitlements.

The District experienced an increase in net assets of \$395,595 for the year. The key reason for the change in net assets was the District's constraints on spending and continued watching of its expenditures.

As discussed above, the net cost shows the financial burden that was placed on the State and the District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of District operating revenue sources, the School Board and Administration must annually evaluate the needs of the District and balance those needs with State prescribed available unrestricted resources.

The District's Funds

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health. The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the governmental funds reported a combined fund balance of \$1,274,916, which is an increase of \$45,868 from the prior year. The primary reason for the increase was due to the increase in the fund balance of the General Fund.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget three times during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of Federal and State programs, many of which are not finalized until well after the District's original budget is required to be adopted.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- Final budgeted revenues were increased by \$174,495 over the original budget due to a better than anticipated rate of interest earned, higher federal grant dollar allocations, and incoming transfers from the Intermediate School District.
- Final budgeted expenditures increased by \$116,405 from the original budget due to continued expenditure line adjustments. The District added programs back into the budget after initial reductions due to the higher anticipated revenues.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the District had \$9,501,907 invested in a range of capital assets including buildings, land, furniture, equipment and vehicles summarized as follows:

	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>% Change</u>
Building and Improvements	\$10,352,123	\$10,373,557	0.2
Office Equipment	40,392	40,392	-
Equipment	26,122	26,122	-
Classroom Equipment	57,779	57,779	-
Buses	351,075	351,075	-
Vehicles	79,158	84,767	7.1
Land	381,996	381,996	-
 Total Capital Assets	 <u>11,288,645</u>	 <u>11,315,688</u>	 <u>0.2</u>
Less: Accumulated			
Depreciation	(1,658,980)	(1,914,425)	15.4
 Total capital assets, net	 <u>\$ 9,629,665</u>	 <u>\$ 9,401,263</u>	 <u>(2.4)</u>

Long-term Debt

At June 30, 2008, the long-term debt ending balance was \$6,876,872. This was composed of \$5,260,000 in 2002 School Improvement Bonds; \$1,670,000 in 2005 School Improvement Bonds; (\$96,206) in unamortized financing costs; \$37,678 of early retirement incentive liabilities; and \$5,400 in accumulated leave liabilities. A summary of the change in long-term debt is as follows:

<u>Beginning</u> <u>Balance</u>	<u>New</u> <u>Debt</u>	<u>Payments</u>	<u>Ending</u> <u>Balance</u>
\$7,452,092	\$ 5,400	\$(580,620)	\$6,876,872

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Frankfort-Elberta Area Schools.

- The current retirement rate is 16.72%. The retirement rate will decrease to 16.54% in 2008-2009. The retirement system was revalued in the 2006-07 fiscal year, hence creating a one time revenue source for the Districts. The restatement leaves a smaller window of smoothing for retirement valuation costs when market conditions might not be so favorable. Containment of costs within the retirement system continues to be a concern for all Michigan school districts. The artificial reduction in the rate for the 2006-2007 school year passes along higher increases to future years.
- Pressures on health insurance premiums are a continuing problem. The District has been experiencing double-digit increases.
- We continue to be very concerned about the State of Michigan's revenue picture. The State Aid bill for the 2008-2009 school year gave a modest increase of about 1% in the student foundation allowance. This increase will not cover increased costs in staffing, fuel and heating costs.
- We are always seeking additional students to attend the District. Now more than ever, student count is important. Our number one revenue source is from the foundation allowance, which is driven by the number of students enrolled in the District. The District has made marketing attempts to try to maintain their student base, as well as to recruit additional students.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Thomas Stobie, Superintendent, 534 11th St., Frankfort, MI 49635-9351. We can be reached by telephone at (231)352-4641.



Business and Financial Advisors
Our clients' success -- our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Frankfort-Elberta Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Frankfort-Elberta Area Schools** (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the School District's financial statements and, in our report dated October 3, 2007, we expressed an unqualified opinion on the respective financial statements of the governmental activities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Frankfort-Elberta Area Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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The management's discussion on pages i - viii and the budgetary comparison information on page 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements and other supplementary information on pages 26 - 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

September 19, 2008

Frankfort - Elberta Area Schools

STATEMENT OF NET ASSETS

June 30, 2008

(With comparative totals for June 30, 2007)

	Governmental Activities	
	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 111,896	\$ 463,118
Investments	1,398,746	866,453
Due from other governments	95,928	170,700
Inventory	202,536	199,543
Total current assets	1,809,106	1,699,814
Non-current assets		
Capital assets, net of accumulated depreciation	9,401,263	9,629,665
Total assets	<u>\$ 11,210,369</u>	<u>\$ 11,329,479</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 98,061	\$ 78,039
Salaries payable and related expenses	482,635	430,212
Deferred revenue	-	11,930
Current portion of long-term debt	573,322	578,820
Total current liabilities	1,154,018	1,099,001
Non-current portion of long-term obligations	6,303,550	6,873,272
Total liabilities	<u>7,457,568</u>	<u>7,972,273</u>
NET ASSETS		
Invested in capital assets, net of related debt	2,567,469	2,283,141
Restricted		
Debt Service	179,803	209,598
School-based activities	61,849	80,918
Capital Projects	116,971	112,672
Unrestricted	826,709	670,877
Total net assets	<u>3,752,801</u>	<u>3,357,206</u>
Total liabilities and net assets	<u>\$ 11,210,369</u>	<u>\$ 11,329,479</u>

The accompanying notes are an integral part of these statements.

Frankfort - Elberta Area Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	2008	2007
Governmental activities					
Instruction	\$ 3,103,273	\$ 7,260	\$ 439,888	\$ (2,656,125)	\$ (2,505,221)
Supporting Services	1,470,247	420	-	(1,469,827)	(1,478,566)
Community Services	4,951	80	-	(4,871)	1,596
Food Service	314,653	142,514	161,762	(10,377)	(41,370)
Athletics	154,627	34,146	-	(120,481)	(124,187)
Other transactions	57,003	-	-	(57,003)	(114,246)
Interest on long-term debt	293,579	-	-	(293,579)	(309,812)
Depreciation-unallocated	255,445	-	-	(255,445)	(150,625)
Total governmental activities	\$ 5,653,778	\$ 184,420	\$ 601,650	(4,867,708)	(4,722,431)
General purpose revenues					
Property taxes					
Levied for general purposes				3,970,016	3,772,269
Levied for Debt Service				760,249	767,702
State school aid - unrestricted				323,216	666,768
Grants and contributions not restricted to specific programs				7,373	69,564
Investment and other				202,449	378,891
Total general purpose revenues				5,263,303	5,655,194
Change in net assets				395,595	932,763
Net assets - beginning of year				3,357,206	2,424,443
Net assets - end of year				\$ 3,752,801	\$ 3,357,206

The accompanying notes are an integral part of these financial statements.

Frankfort - Elberta Area Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

(With comparative totals for June 30, 2007)

	General Fund	Building Trades	2002 Debt Service Fund	Other Governmental Funds	Total Governmental Funds	
					2008	2007
ASSETS						
Cash and cash equivalents	\$ 91,685	\$ 20,106	\$ -	\$ 105	\$ 111,896	\$ 463,118
Investments	1,055,466	-	179,311	163,969	1,398,746	866,453
Due from other governments and other receivables	86,309	-	-	9,619	95,928	170,700
Due from other funds	179,976	-	375	9,459	189,810	180,476
Inventories - supplies and materials	-	200,810	-	1,726	202,536	199,543
Total assets	\$ 1,413,436	\$ 220,916	\$ 179,686	\$ 184,878	\$ 1,998,916	\$ 1,880,290
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued expenses	\$ 534,190	\$ -	\$ -	\$ -	\$ 534,190	\$ 458,836
Due to other funds	9,459	179,976	-	375	189,810	180,476
Deferred revenue	-	-	-	-	-	11,930
Total liabilities	543,649	179,976	-	375	724,000	651,242
FUND BALANCES						
Reserved for school-based activities	-	-	-	19,183	19,183	(118,625)
Reserved for Capital Projects	-	-	-	116,971	116,971	112,672
Reserved for Debt Service	-	-	179,686	46,623	226,309	259,013
Reserved for Inventories	-	40,940	-	1,726	42,666	199,543
Unreserved						
General Fund	869,787	-	-	-	869,787	776,445
Total fund balances	869,787	40,940	179,686	184,503	1,274,916	1,229,048
Total liabilities and fund balances	\$ 1,413,436	\$ 220,916	\$ 179,686	\$ 184,878		

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$11,315,688 and the accumulated depreciation is \$1,914,425.

9,401,263 9,629,665

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(6,930,000)	(7,460,000)
Unamortized financing costs	96,206	113,476
Accrued interest on bonds	(46,506)	(49,415)
Accrued early retirement incentive liability	(37,678)	(102,268)
Accumulated leave liability	(5,400)	(3,300)

Total net assets - governmental activities

\$ 3,752,801 \$ 3,357,206

The accompanying notes are an integral part of these financial statements.

Frankfort - Elberta Area Schools

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	General Fund	Building Trades	2002 Debt Service Fund	Other Governmental Funds	Total Governmental Funds	2007
Revenues						
Property taxes	\$ 3,970,016	\$ -	\$ 622,535	\$ 138,230	\$ 4,730,781	\$ 4,541,417
Interest	79,404	-	24,059	8,005	111,468	82,552
State revenues	565,426	-	-	18,927	584,353	933,732
Federal revenues	136,385	-	-	125,348	261,733	255,866
Other	160,012	-	-	201,026	361,038	625,393
Total revenues	4,911,243	-	646,594	491,536	6,049,373	6,438,960
Expenditures						
Instruction	3,148,493	-	-	-	3,148,493	3,108,865
Supporting Services	1,468,644	-	-	-	1,468,644	1,479,711
Community Services	4,951	-	-	-	4,951	13,539
Other transactions	26,216	-	1,228	375	27,819	1,976
Food Service	-	-	-	314,653	314,653	250,148
Athletics	-	-	-	154,627	154,627	153,988
Debt Service	-	-	-	-	-	-
Principal	-	-	465,000	65,000	530,000	510,000
Interest	-	-	227,153	69,335	296,488	312,427
Capital outlay	57,163	-	-	667	57,830	260,714
Total expenditures	4,705,467	-	693,381	604,657	6,003,505	6,091,368
REVENUES OVER (UNDER) EXPENDITURES	205,776	-	(46,787)	(113,121)	45,868	347,592
Other financing sources (uses)						
Operating transfers in	-	-	7,330	112,434	119,764	179,296
Operating transfers out	(112,434)	-	-	(7,330)	(119,764)	(179,296)
Total other financing sources (uses)	(112,434)	-	7,330	105,104	-	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	93,342	-	(39,457)	(8,017)	45,868	347,592
Fund balance, beginning of year	776,445	40,940	219,143	192,520	1,229,048	881,456
Fund balance, end of year	\$ 869,787	\$ 40,940	\$ 179,686	\$ 184,503	\$ 1,274,916	\$ 1,229,048

The accompanying notes are an integral part of these financial statements.

Frankfort - Elberta Area Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	2008	2007
Total net change in fund balances - governmental funds	\$ 45,868	\$ 347,592
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Capital outlays	\$ 27,043	
Depreciation expense	(255,445)	(228,402)
		(2,181)
In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there were \$3,300 compensated absences paid out and another \$5,400 earned.		
	(2,100)	1,500
In the statement of activities, certain operating expenses - early retirement incentives - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, early retirement incentive benefits paid out were \$64,590 and no additional incentives were earned.		
	64,590	91,502
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		
	530,000	510,000
Amortization of deferred financing costs.		
	(17,270)	(18,265)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds, because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities; however, interest expense is recognized as the interest accrues, regardless of when it is due. The reduced amount of interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.		
	2,909	2,615
Change in net assets of governmental activities	\$ 395,595	\$ 932,763

Frankfort - Elberta Area Schools

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

(With comparative totals for June 30, 2007)

	Agency Funds	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 71,396	\$ 74,391
LIABILITIES		
Due to student groups	\$ 71,396	\$ 74,391

Frankfort - Elberta Area Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Frankfort-Elberta Area Schools (the "School District") is a Michigan public school district consisting of one elementary school and a junior and senior high school. The School District primarily serves the Benzie County area. As of June 30, 2008, the School District employed 43 professional staff and 20 non-professional staff and has approximately 545 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of Frankfort-Elberta Area Schools are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2008.

The Financial Reporting Entity

Frankfort-Elberta Area School's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the schools hold assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Building Trades Fund is a Special Revenue Fund used to account for financial resources used to construct homes for resale and proceeds from the sale of the homes.

The 2002 Debt Service Fund is used to account for the accumulation of resources for and the payment of, bond principal, interest and related costs.

Other Governmental Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special purposes. The Food Service and Athletic Funds are accounted for as Special Revenue Funds.

The 2005 Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund Types

Agency Fund

The Agency Fund accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The Student Activity Fund is an Agency Fund.

Cash and Investments

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis and homes constructed for resale. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used or sold.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25-50
Improvements, other than buildings	15-20
Vehicles	7-10
Furniture, machinery and equipment	3-20

Long-Term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The governmental fund financial statements report reserved fund balances for amounts not available for appropriation or legally restricted for specified purposes.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, At-Risk and School Lunch Programs, which are reported as operating grants and contributions.

Spending Policy

The School District's policy is to apply restricted revenues first when an expense is incurred for purposes when both restricted and unrestricted net assets are available.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the School District was in compliance with the Act.

NOTE C - CASH AND INVESTMENTS

At June 30, 2008, the School District's cash and investments included the following:

	Balance Sheet Classification		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Bank deposits and cash on hand	\$111,896	\$ -	\$ 111,896
CD, bond and money market investments	71,396	492,775	564,171
Investment pools	<u>-</u>	<u>905,971</u>	<u>905,971</u>
	<u>\$183,292</u>	<u>\$1,398,746</u>	<u>\$1,582,038</u>

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$180,502 of the School District's cash and investments was insured. The remaining bank balance of \$322,990 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND INVESTMENTS - Continued

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Money market accounts	\$ 492,775	\$ 492,775	\$ -	\$ -	\$ -
Investment pools	<u>905,971</u>	<u>905,971</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,398,746</u>	<u>\$1,398,746</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investments in the MILAF and Government Sponsored Enterprises investment pools were rated AAAM and AAA, respectively, by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens on July 1 of the School District's fiscal year. Townships within the School District collect and remit taxes until September 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18.00 per \$1,000 of equalized non-homestead property value in the School District of \$225,006,257 was levied for general operating purposes. For Debt Service purposes, \$2.20 per \$1,000 of equalized homestead and non-homestead property value in the School District of \$345,511,786 was levied.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE -
Continued

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, were as follows:

	<u>2008</u>	<u>2007</u>
Due from the State of Michigan		
State Aid	\$85,476	\$118,304
Due from Federal grants	-	27,383
Due from townships - property taxes	833	2,860
Other receivables	<u>9,619</u>	<u>22,153</u>
	<u>\$95,928</u>	<u>\$170,700</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consisted of the following:

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Building and improvements	\$10,352,123	\$ 21,434	\$ -	\$10,373,557
Office equipment	40,392	-	-	40,392
Equipment	26,122	-	-	26,122
Classroom equipment	57,779	-	-	57,779
Buses	351,075	-	-	351,075
Vehicles	<u>79,158</u>	<u>5,609</u>	<u>-</u>	<u>84,767</u>
Total	10,906,649	27,043	-	10,933,692
Less accumulated depreciation	(1,658,980)	(255,445)	-	(1,914,425)
Land	<u>381,996</u>	<u>-</u>	<u>-</u>	<u>381,996</u>
Total capital assets, net	<u>\$ 9,629,665</u>	<u>\$(228,402)</u>	<u>\$ -</u>	<u>\$ 9,401,263</u>

Depreciation expense of \$255,445 was unallocated.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$7,460,000	\$ -	\$(530,000)	\$6,930,000	\$550,000
Unamortized financing costs	(113,476)	-	17,270	(96,206)	(16,156)
Early retirement incentive	102,268	-	(64,590)	37,678	37,678
Compensated absences	<u>3,300</u>	<u>5,400</u>	<u>(3,300)</u>	<u>5,400</u>	<u>1,800</u>
Long-term debt at June 30, 2008	<u>\$7,452,092</u>	<u>\$5,400</u>	<u>\$(580,620)</u>	<u>\$6,876,872</u>	<u>\$573,322</u>

Payments on general obligation bonds are made by the Debt Service Fund. The early retirement incentive and accumulated leave liability will be liquidated primarily from the General Fund.

At June 30, 2008, the School District's long-term debt consisted of the following:

2002 School Improvement Bonds. Due in annual installments of \$295,000 to \$685,000 through May 1, 2017; average interest rate of 4.05%.	\$5,260,000
2005 School Improvement Bonds. Due in annual installments of \$65,000 to \$160,000 through May 1, 2024; average interest rate of 4.23%.	1,670,000
Unamortized financing costs.	(96,206)
Early retirement incentive liability, due July 1, 2008.	37,678
Accumulated leave liability.	<u>5,400</u>
Total long-term debt	<u>\$6,876,872</u>

Total annual requirements to amortize bonds as of June 30, 2008 were as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 550,000	\$ 279,035
2010	575,000	259,963
2011	600,000	239,007
2012	625,000	216,070
2013	655,000	191,628
2014-2018	3,025,000	529,752
2019-2023	740,000	130,806
2024	<u>160,000</u>	<u>6,880</u>
Totals	<u>\$6,930,000</u>	<u>\$1,853,141</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM LIABILITIES - Continued

Interest expense for the year ended June 30, 2008 was \$293,579 and interest paid for the year ended June 30, 2008 was \$296,488.

NOTE G - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY -
Continued

Interfund receivables and payables as reported in the governmental fund financial statements at June 30, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds		
General Fund	\$179,976	\$ 9,459
2002 Debt Service Fund	375	-
Building Trades	-	179,976
Other Governmental Funds		
2005 Debt Service Fund	-	375
Food Service	<u>9,459</u>	<u>-</u>
	<u>\$189,810</u>	<u>\$189,810</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Transfer in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
Major Governmental Funds		Other Governmental Funds	
2002 Debt Service Fund	\$ 7,330	2002 Capital Projects Fund	\$ 7,330
Other Governmental Funds		Major Governmental Funds	
Athletic Fund	<u>112,434</u>	General Fund	<u>112,434</u>
	<u>\$119,764</u>		<u>\$119,764</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE I - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the plan; and the School District is required to contribute at an actuarially determined rate using the entry age actuarial cost method. The rate was 17.74% for July 1, 2007 through September 30, 2007 and 16.72% for October 1, 2007 through June 30, 2008 of annual covered payroll. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were \$405,240, \$442,020 and \$450,882, respectively, equal to the required contribution for each year.

Post-Employment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPERS plan discussed above.

NOTE J - COMMITMENTS AND CONTINGENCIES

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Frankfort-Elberta Education Association. The Board of Education and the Frankfort-Elberta Education Association have a contract from September 1, 2007 through August 31, 2009.

The Support and Food Service personnel at the School District are organized under the Frankfort-Elberta Educational Support Personnel Association. The Board of Education and the Frankfort-Elberta Educational Support Personnel Association have a contract from August 29, 2007 through June 30, 2009.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

REQUIRED SUPPLEMENTARY INFORMATION

Frankfort - Elberta Area Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	Budgeted Amounts		Actual (GAAP Basis) 2008	Variances - Positive (Negative)		Actual (GAAP Basis) 2007
	Original	Final		Original to Final	Final to Actual Total	
Revenues						
Local and intermediate sources	\$ 3,928,845	\$ 4,104,996	\$ 4,108,308	\$ 176,151	\$ 3,312	\$ 4,042,425
State revenues	597,283	565,746	565,426	(31,537)	(320)	920,090
Federal revenues	117,666	143,580	136,385	25,914	(7,195)	140,262
Incoming transfers and other transactions	94,431	98,398	101,124	3,967	2,726	105,724
Total revenues	4,738,225	4,912,720	4,911,243	174,495	(1,477)	5,208,501
Expenditures						
Instruction	2,971,896	3,183,220	3,161,983	(211,324)	21,237	3,105,336
Supporting Services	1,543,652	1,565,796	1,537,337	(22,144)	28,459	1,520,123
Community Services	16,663	4,951	4,951	11,712	-	13,539
Payments to other governmental agencies and facility acquisitions						
Payments to other governmental agencies	4,000	2,000	1,196	2,000	804	1,722
Facility acquisitions	3,652	-	-	3,652	-	19,267
Total expenditures	4,539,863	4,755,967	4,705,467	(216,104)	50,500	4,659,987
REVENUES OVER (UNDER) EXPENDITURES	198,362	156,753	205,776	(41,609)	49,023	548,514
Other financing sources (uses)						
Operating transfers out	(232,556)	(132,857)	(112,434)	99,699	20,423	(179,296)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(34,194)	23,896	93,342	58,090	69,446	369,218
Fund balance, beginning of year	776,445	776,445	776,445	-	-	407,227
Fund balance, end of year	\$ 742,251	\$ 800,341	\$ 869,787	\$ 58,090	\$ 69,446	\$ 776,445

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Frankfort - Elberta Area Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2008

(With comparative totals for June 30, 2007)

	Special Revenue Funds		Capital Projects Fund		Debt Service Funds	Total Non-Major Governmental Funds	
	Food Service	Athletics	2002	2005	Public Improvement	2008	2007
ASSETS							
Cash and cash equivalents	\$ 105	\$ -	\$ -	\$ -	\$ -	\$ 105	\$ 72,474
Investments	-	-	-	-	46,998	163,969	124,787
Due from other governments and other receivables	9,619	-	-	-	-	9,619	7,083
Due from other funds	9,459	-	-	-	-	9,459	-
Inventories - supplies and materials	1,726	-	-	-	-	1,726	291
Total assets	\$ 20,909	\$ -	\$ -	\$ -	\$ 46,998	\$ 184,878	\$ 204,635
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable and accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,865
Due to other funds	-	-	-	-	375	375	250
Total liabilities	-	-	-	-	375	375	12,115
FUND BALANCES							
Reserved for school-based activities	19,183	-	-	-	-	19,183	39,687
Reserved for Capital Projects	-	-	-	-	116,971	116,971	112,672
Reserved for Debt Service	-	-	-	-	46,623	46,623	39,870
Reserved for Inventories	1,726	-	-	-	-	1,726	291
Total fund balances	20,909	-	-	-	46,623	184,503	192,520
Total liabilities and fund balances	\$ 20,909	\$ -	\$ -	\$ -	\$ 46,998	\$ 184,878	\$ 204,635

Frankfort - Elberta Area Schools

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	Special Revenue Funds		Capital Projects Funds		Debt Service Funds	Total Non-Major Governmental Funds	
	Food Service	Athletics	2002	2005	Public Improvement	2008	2007
Revenues							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 138,230	\$ 163,340
Interest	-	-	102	13	4,657	8,005	7,744
State revenues	18,927	-	-	-	-	18,927	13,642
Federal revenues	125,348	-	-	-	-	125,348	115,604
Other	160,001	34,147	6,878	-	-	201,026	109,333
Total revenues	304,276	34,147	6,980	13	4,657	491,536	409,663
Expenditures							
Food Services	314,653	-	-	-	-	314,653	250,148
Athletics	-	154,627	-	-	-	154,627	153,988
Other transactions	-	-	-	-	-	375	254
Debt Service	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	268	378	-	21	-	667	860
Total expenditures	314,921	155,005	-	21	-	604,657	541,925
REVENUES OVER (UNDER) EXPENDITURES	(10,645)	(120,858)	6,980	(8)	4,657	(113,121)	(132,262)
Other financing sources (uses)	-	-	-	-	-	-	-
Operating transfers in	-	112,434	-	-	-	112,434	179,296
Operating transfers out	-	-	(7,330)	-	-	(7,330)	-
Net other financing sources (uses)	-	112,434	(7,330)	-	-	105,104	179,296
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(10,645)	(8,424)	(350)	(8)	4,657	(8,017)	47,034
Fund balance, beginning of year	31,554	8,424	350	8	112,314	192,520	145,486
Fund balance, end of year	\$ 20,909	\$ -	\$ -	\$ -	\$ 116,971	\$ 184,503	\$ 192,520



Business and Financial Advisors
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Frankfort-Elberta Area Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Frankfort-Elberta Area Schools* (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated September 19, 2008.

This report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

September 19, 2008



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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Frankfort-Elberta Area Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Frankfort-Elberta Area Schools (the "School District") for the year ended June 30, 2008, and have issued our report thereon dated September 19, 2008. Professional standards require that we provide you with the following information related to our audit:

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 23, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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Internal Controls

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

We consider the following deficiencies to be a *material weakness* in internal controls:

None Noted

We consider the following deficiencies to be *significant deficiencies* in internal control:

None Noted

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 11, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Frankfort-Elberta Area Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by Frankfort-Elberta Area Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Agency Funds

During the audit, we analyzed the student activities accounts within the agency funds. It appears the School District is accounting for some of the athletic activities through a number of student activity accounts, both the revenues and expenditures of the activities. We recommend these athletic activities be accounted and budgeted for within the Athletic Fund. This is a repeat comment.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Accumulated leave liability
Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Risk Management
Commitments and Contingencies

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Recorded Adjustments

We recorded an audit adjustment to restore a held check to cash and recorded a corresponding accounts payable.

We recorded an audit adjustment to increase depreciation expense and accumulated depreciation.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 19, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Frankfort-Elberta Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Frankfort-Elberta Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

September 19, 2008